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CONTENTS

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JAPAN

• Elimination of Obstacles for Financial Reform *[EKONOMISUTO 10 Jul]* 1
• Special Report on Financial Reform 5
  • Subsidiary Formula *[GINKO JIHYO Jul]* 5
  • Increased Pressure for Profit *[GINKO JIHYO Jul]* 9
• Accelerating Savings Interest Liberalization *[GEKKAN KORON Sep]* 13

* Elimination of Obstacles for Financial Reform

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[Interview with Toshio Takeuchi, president of Credit Saison; and Yoshihiko Miyauchi, president of Orix by EKONOMISUTO editor in chief, Saburo Zushi, date and place not specified: "Don't Block the New Trend Toward Financial Reform: Licensing and Administrative Guidance Are No Longer Needed"]

[Text] Japan's present system of finance is virtually unchanged in form since World War II. Have we really been able to cope, using this system, with the modern Japanese economy, which has grown advanced and complicated? Will it be enough merely to change the existing framework?

Toshio Takeuchi: Born 1932. Graduated from Faculty of Agriculture, Tokyo University. Entered the Seibu Department Stores, Ltd. After serving as managing director of Seibu, director of Midoriya (after changing its name to Seibu Credit Co., Ltd., it is now Credit Saison) and so on; is now president of Credit Saison.

Yoshihiko Miyauchi: Born 1935. Graduated from Faculty of Commerce, Kansai Gakuin University. Completed Master's course in Department of Business Administration, University of Washington Graduate School. Entered Nichimen Industries (Nichimen Corporation). Subsequently entered Orix; is now president of Orix.

An Antiquated Finance System

[Zushi] First of all, what do you think of the present financial administration or Japan's finance system?

[Miyauchi] Before that, isn't the basic question the matter of whether the nature of money and the present finance system really operate as a plus for Japan's economy? Money moves most efficiently under capitalism. The material economy, that is, goods and services, flows because of this. The present finance system tries to create an orderly flow in which the flow of money is checked at will, so it ends up ruining economic efficiency. It is necessary to make Japan's finance system over into a system that will allow money to flow as naturally as possible.

If the administrative authorities leaned toward the preservation of the present financial system, wishing to keep any changes to a minimum, the movement of money in the present advanced economy would become very unsatisfactory and restricted, so there would emerge the minus aspect of economic activity being limited.

[Takeuchi] The administration says that order is important in finance, but if so, what they mean by financial order has not been debated. The rising price of stock does not seem to destroy the order. It is necessary to debate in a fundamental manner what financial order is. Galbraith states clearly "In the 250 year history of economics there is no theory which says what finance should be; it is just people who are engaged in finance uttering a specialized term with confidence, because their heads are empty."

The administration is not thinking about difficult theory, or that it should be any certain way. If something comes up, they work on it as hard as they can. If criticized by America they gloss things over in the name of internationalization. It is a succession of that; if one looks at it later, is it not, somehow, nothing more than them saying order or something of the sort?

[Miyauchi] The finance system is almost unchanged basically in the 40 years since the end of World War II. The finance system that was formed 40 years ago is traditional and lacks flexibility, so it cannot respond to change for more advanced and more efficient financial transactions. Therefore arguments for reform arise, and what is being considered now is to continue to introduce newly developed financial products and finance-related business. If we build another solid box at this point, it will be a repetition of the same thing. The Japanese economy will advance steadily, so the very instant a financial system is designed it will cease to be flexible and be able to respond.

[Takeuchi] In the 1970's money was all in the background of things. Leasing was leasing for the purpose of selling, and credit, too, was an entity in the background for the purpose of settling accounts. Through the 1980's it moved to the front. That is the special characteristic of the 1980's. There are American scholars who say that even in the 1990's goods will be sufficient, so money will probably come to the fore still more. I, too, agree with that.

Up to now it was a supporting player, in particular such things as leasing, venture capital and credit cards were entities in the background, but they have steadily moved to the forefront. Therefore, it is impossible for the system, or order to catch up.

An Interim Report in Which Poison Was Prescribed

[Zushi] After World War II, the financial system was decided on in about 1952. Wasn't this Japanese financial system something that had come down without any change at all?

[Takeuchi] There are no new entrants in banks. In insurance, there are some affiliated with foreign capital. In nonlife insurance, about five companies have been approved since World War II. But none of those that have been approved have fared well; there has been a costly lesson in that. Insofar as banks are concerned there have been zero new entrants.

[Miyauchi] An industry without new entrants is nothing but a distortion of economic activity. Moreover, the same is also true of a business without free competition.

Is it not bad if the existence of Japanese financial circles is not the first thing one recognizes?

[Zushi] Securities companies switched from a registration system to a license system using the recession of 1965 as an opportunity.

[Takeuchi] Commodity transactions, etc., and the securities industry are industries which the Ministry of Finance has worked hard to guide. But the guidance was thorough, so they ended up being tamed. The same is true of banks. In the words of persons connected to the Ministry of Finance, banks do not understand the administration's riddles. They come to consult about every blessed thing. It is said that this is especially true of regional banks. The ones among them that have not been tamed are the (long-term development banks), which have maneuvered most skillfully in the current problem of sitting on the fence between banks and securities firms. They took both the business of securities and the business of trusts. The city banks cannot take anything.

If regional banks do not stand firm they will end up being absorbed. It is unclear whether that report is actually good or bad.

[Miyauchi] The reports that have come out to date were made by people who are inside the framework of the existing system. Will this become a foundation upon which can be built the kind of constructive Japanese finance system that can support the next generation?

[Takeuchi] Consumer representatives, scholars, etc., are included in every committee, but in the report draft there is a place where poison is administered. But on the consumer side, it is unclear where the poison is located unless an expert studies it closely. The ones to whom this is clear are the administrators and some related persons in industrial circles; the rest of the people do not understand.

When you read the current interim report, the direction can be seen on the whole. One can imagine what will happen next. It is probable that everywhere except the four top city banks, and long-term credit banks, and some credit banks a change to become part of a *keiretsu* will advance. It will advance, and there will be absorption and joint ventures. I feel as if the the kind of things that Kabutocho and journalists are saying will actually occur. That can be called poison.

Structural Problems

[Zushi] How about the structural problems noted in the reports of all kinds of commissions such as the Securities and Exchange Council?

[Miyauchi] To begin with, the fact that no assumption whatsoever has been made of new entrants from other industrial circles is a problem in basic terms. Nor is the method for newcomers to enter clear. Another thing, speaking particularly on the bank side, is that banks have become very powerful entities. In addition, in regard to other securities business, etc., even if there is a new fire wall, approving expansion into such things is a problem. What in the blazes kind of financial institution are they trying to create in Japan?

Furthermore, in Japan it is said that liberalization of finance has made progress, but there is a mountain of things which limit competition. It would be fine if it were done on the premise that there is free competition in the true sense, but if competition-limiting things continue, it is probable that an organization which continues to guarantee huge revenues will be maintained. I think this is a problem. Revenue becomes strength and influence.

At the Securities and Exchange Council there can be seen an orientation toward increasing in the future a wide handling of securities, but there is the difficult problem of defining what a security is, and an infinite variety of as yet unknown securities are conceivable in the future. It would be strange to handle all of them within the present administrative framework. It is unclear from whence as yet unknown new products will be born. The content of the current report does not make clear even whether the discoverer or promoter will be allowed in the village; is this not a problem?

[Takeuchi] The problem of new entrants has occurred at all sorts of boundaries between industries such as banks or securities firms. The same is true internationally.

[Miyauchi] America is amazing. According to what I hear, in 1987 300 so-called commercial banks newly entered the arena, and, on the other hand, about 750 banks withdrew for a variety of reasons, such as going bankrupt, closing their business or merger. There are not many changes in England. In regard to Japan's finance system they have the idea of taking the European type as a model, and excluding the American type.

America, too, goes a bit too far, and has the kind of failures in which it allows institutions to act too freely and things get messed up, as with the S&L's for instance, so I think that a wonderful free financial market can be created which learns from these lessons while taking the American type as a model.

[Takeuchi] About the only healthy bank in America is Citicorp. To a certain extent banks become barometers of a nation's prestige and the strength of its economic power. Really awful things like the matter of the S&L's are not acceptable, but overprotective restrictions on competition are not good either. That is a difficult area.

As you say, equity financing using securities can develop without limit.

[Miyauchi] However, the stance of the present administration is to put it into the present licensed industry types.

[Takeuchi] The thinking which seeks to put all the new finance based on equity financing under the control of the Securities Bureau runs counter to the times.

[Miyauchi] If they publish clear criteria for approval, and it is within that framework, anyone will be able to do it. I think it is along the lines that it is all right for us, and it is all right even for an iron and steel manufacturer to do if it so wishes.

[Takeuchi] They should publish the criteria. In addition, in Germany mortgage loans are published in the newspaper every day. They have securities, too, beginning from small amounts, so it is a mechanism in which the general public can participate. Places that deal in stocks in the current manner cannot even disclose the fact that they manage new financial undertakings, and I do not understand the movement to bring equity financing completely into the Security Bureau. I cannot think that it is anything but a struggle for power among officials.

[Miyauchi] For example, rank the reliability of each security. Make clear in advance the conditions for disclosure by dealers who handle them. If that is adhered to closely, anyone will be able to participate. I think Japan, too, should do it that way. If that is done, licensing and administrative guidance will no longer be needed.

[Takeuchi] You are so right. It is even all right if banks rate them.

Ministry of Finance Guidance Runs Counter to the Times

[Miyauchi] As you said, imposing exact order on the traditional part, the making and withdrawing of so-called basic individual savings deposits, or carrying out the function of closing out accounts, is conceivable to some extent because of the special nature of finance, but this has gradually become a smaller part of the movement of money. If it is a matter of trying to extend the current of systematic Ministry of Finance guidance to everything called finance, it is running counter to the times.

Even if it is unavoidable that the Ministry of Finance continue to participate to a considerable degree in traditional areas, Japan's economic development will be impeded if it does not consider a totally different stance in other areas. Now new economic behavior is born when surplus funds influence all funds. Thereupon, being fantastically free is an added bonus. Control would completely put an end to that.

[Takeuchi] Above bureaucracy there is politics. But, conversely, bureaucracy creates the form politics will take.

[Miyauchi] Politics and the legislature are giving too much authority for free discretion to administration.

[Zushi] The present nonbanks are restricted from being able to issue commercial paper or corporate bonds.

[Miyauchi] This is a truly strange matter. Moreover, a precise explanation of the reason for this not being permitted has not been given.

[Takeuchi] They should make it possible to issue commercial paper and corporate bonds based on the company balance sheet, the amount issued, and the ranking; it should not be by industry type, that it will not do for a particular industry type.

[Miyauchi] That is right. To comment on the type of industry is behind the times. They should make an issue of their activity, that is, their transaction activity. Enterprises that are doing a particular kind of transaction are yes if they have such and such requisites, if they do not, it is no. If the company is called a trading company they say "Issue commercial paper," if it is called such and such leasing company, they say "you cannot." It is riduculous.

[Takeuchi] Furthermore, it is said that nonbanks have issued about Y25 trillion in loans for land, but if you check it carefully, the ones that are doing land loans are almost all subsidiaries of banks. Even if considered to the maximum, the aggregate total for your place or for credit sales companies is only about Y3 trillion.

The remaining approximately Y22 trillion is the overall total for bank subsidiaries: such and such bank leasing, or such and such bank finance or a bank factoring company. Each bank has an average of 10 companies. The same is true of subsidiaries of life insurance companies. It is clear in statistics. For some reason people call them nonbanks. The Ministry of Finance, too, is well aware of this actual situation.

[Miyauchi] Money flows to where it is needed. Even if you try to control it just because it is flowing to land, in the end it is impossible. For example, even if a single sen ceased to go to places called nonbanks, money would be sure to go toward land from somewhere else. That is, the problem of land finance is a problem of land policy; stopping the flow of money is impossible in the present era.

However, if one asks what would happen if they were to say that money must not go to nonbanks, and it was really stopped, it would only be that our cost for funds would go up. It would be a matter of money coming to our place indirectly, so it would have no meaning.

The Principle of Free Competition is Natural

[Zushi] At present in U.S.-Japan financial consultations, in regard to the liberalization of interest on fixed term deposits they are debating whether liberalization will take one year or three years. What are your thoughts on that?

[Miyauchi] If we speak from the standpoint of carrying on company activities every day in a free market, bringing in the principle of free competition is natural.

[Takeuchi] America is doing that vigorously. But America began liberalization in 1970, and it took 13 years before it took on some degree of form. In Japan liberalization began in 1979. A similar length of time will

be required in Japan, too, will it not? Speaking in those terms, liberalization of interest rates will be three years from now. That is the feeling I get when looking at the present tenor of the argument.

However, this is something that happened in America, but the cost of deposits go up when interest is liberalized. But banks do not possess the know-how to invest with high interest. Places to which you can lend money at high interest have high risks. That is written in the book *The Cause for the Failure of U.S. Banks.*

Another thing is the fact that the cost of deposits rose. Bankers do not have the know-how to lend expensive funds. They cannot lend to places with high risks. Bankers all made a mistake on that. With Japanese banks, too, if they do not have the know-how, and costs rise, and they want to lend at high interest, it is bound to be in real estate. But the risk is high. They do not have the know-how to evade that risk. If they go on promoting this, a change to *keiretsu* is sure to progress. I think it is a good thing.

[Miyauchi] Moreover, they say that they will liberalize in a shorter time than America, and the present accumulation in Japanese banks is fantastic, so if they have that much accumulation it is all right even if they do it hurriedly.

[Zushi] Small and medium securities firms and small and medium financial institutions are strongly opposing liberalization. They are saying that liberalization is based strictly on the logic of the strong, and how can they survive if it is realized.

[Takeuchi] The interim report advises allowing regional banks to do both securities and trusts. If that is realized, small and medium securities firms in the provinces will fail.

[Zushi] Even those among secondary regional banks or credit associations that are weak will fail.

[Takeuchi] Small and medium ones will end up failing.

[Miyauchi] That is true of everything, for every business.

[Takeuchi] History is a repetition of this.

[Miyauchi] It would be strange for even the ones at the very bottom of the heap to survive. I think administrative authorities need not bear responsibility for this.

[Takeuchi] That is right.

[Zushi] The Ministry of Finance says that banking is different from ordinary industries, that it is special; it says that banking is a kind of social order which buys and sells trust, and to damage this is a special phenomenon. Would you care to comment on that?

[Miyauchi] I do not deny that part entirely, but neither can I believe that it is as much of a consecrated ground as it is said to be.

What Is the Justification for the Existence of the Bank of Japan?

[Takeuchi] When you consider the financial system, the ideal nature of the Bank of Japan is a problem. For what purpose does it exist? What is it doing? Maintenance of credit order, the function of large-scale settling of accounts, and financial manipulation of the official rate. Any number of thousands of people are doing research for that purpose. When there is a slight suspicion of inflation, they raise the official rate a bit, etc., and there is no policy other than that.

By that means it is carrying out finance policy in cooperation with the Ministry of Finance, but when internationalization has become intense, the necessity for the central bank's role will disappear. However, if you say it is not needed, that affects its prestige, so one cannot say that.

[Miyauchi] Looking throughfrom my eyes, what it is doing now is the dual function of preventing inflation and intervening in exchange rates.

[Takeuchi] There is no example of it having been successful.

[Miyauchi] It appears that all nations are intervening in exchange rates, but I am not sure for what purpose. They should leave it to the market.

[Zushi] Mr. Miyauchi concerning reform of the finance system, are you of the opinion that we should destroy the stronghold, itself?

[Miyauchi] At the very least we should fill in the stronghold's moat. It is permissible to have the supervision of the Ministry of Finance or the Bank of Japan in the basic places, but from now on any number of new fields will emerge in finance. Those who assume responsibility in this should not be limited. It would be a mistake if they tried to also take in vast new markets by the reform argument used up to now.

There are the expressions "consumer protection" and "maintenance of credit order," or some such, but I do not understand the meaning very well. Was there ever a time when the monetary system protected consumers in the true sense? It is not an exaggeration to say that the profits of huge financial institutions sprang from consumers. It must be asked again whether there existed a monetary system, conforming to substance, which was worth that. The present financial system gives discretionary power to financial institutions, so it has resulted, has it not, in giving extremely arbitrary power to the administrative authorities. All sorts of people are creating the present situation in which it is difficult to live, and the people who are administering finance have ended up becoming giants among them.

[Takeuchi] It is pointed out internationally, and particularly from America, that "Japan's administrative authorities are the bosses of industry circles. The Banking Bureau resembles a bank chairman with neither

responsibility for management nor authority to represent. Therefore, there is no such thing as the voice of the common people. The voice of industry circles is reflected. The Securities Bureau is an agency which coordinates the interests of securities company organizations. The same it true of the Insurance Bureau. MITI [Ministry of International Trade and Industry], too, is an agent for the entire automobile industry." It is said that regulators of banks absorb the needs of consumers and the needs of the people of the country, but that is not true. The interests of banks come first. There is a problem there. That part is different from America.

The problem of fences between areas of activity has now arisen in Japan's regulation. When the problem of fences arises, now the long-term development banks are exewrting their utmost effort because they want to take in trusts and securities. Now industry circles have become coordination agencies for the purpose of acquiring vested interests. Among them there is nothing at all for new entrants, or consumers or users.

There will be much fault, will there not, if it goes on progressing in this manner, in the absence of consumers, users and enterprises.

Administration With Sound Judgment

[Zushi] In closing, what can become the driving force in promoting liberalization and reforming the financial system?

[Takeuchi] I think it is the mass media. In reality it is politics, but, just as it is said lately that Japan's economy is first class and its politics is third class, politics is unreliable. I think the power of the mass media is the best force for repairing this thing which has become warped.

[Miyauchi] I am repeating myself, but, for Japan to become an advanced country in the true sense, it will be too bad if those involved in regulation submit meekly to industry circles, and if the bureaucrats who guide them do likewise. The union in which they get along well with each other, and are the only ones deriving benefits is not good. There are many places in which it is unclear on what law their actions are based. The rightful form is to guarantee clarity in administrative guidance: this is written down here, so you cannot do it; what is not written is allowed. But that is not true of the present situation.

I cannot place as much reliance as you on the mass media. Particularly when it comes to finance, the mass media's sources of information end up being biased. It is a matter of saying "Mass media, please look at the essense of finance. Politicians, too, please consider the future of Japanese finance in a steady manner. Administration, please have sound judgment and trust company activity and the mechanism of competition."

* Special Report on Financial Reform

* Subsidiary Formula

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[Article by Hiroaki Otani]

[Text] In response to the Financial System Research Committee [FSRC]'s interim report in May 1989, the council and the Securities and Exchange Council [SEC] have respectively continued debates on system reform, and they are at last working toward finalizing their reports. Concerning the SEC, whose report is to come earlier, a draft is now being prepared by the Second Working Team of its Basic Issues Study Committee. Touching on the issue of who can be involved in the securities business, the draft report is said to call for admission of new participation in the securities business under a subsidiary formula for the first time. Following this step, the FSRC in its report is expected to first clarify the same reasoning, and then explain it in further detail. However, it will be very difficult to work out the details of a concrete plan, including issues such as the fire wall question [the question of establishing a wall between banks and their securities subsidiaries to prevent the flow of personnel, capital, and information and avoid profit conflicts or bank domination of the subsidiaries] will be continuously studied after interim reports are made in June. Japan's financial system, which has long followed a "vertically oriented" pattern [a term used to indicate dictative regulation of the lines of business in Japan], has begun to move toward new directions. This move represents an indispensable need to cope with surging waves of financial liberalization, internationalization, and securitization, and financial institutions and securities houses have already geared up their activities to build up a working system to this end.

A financial source says: "As expected, the line for participation [in the securities business] through a subsidiary formula has become consolidated. However, it is not clear whether the fire wall will be lowered or raised. Such details are expected to be further discussed "through joint deliberations or any other similar form of discussions" after interim reports are presented. A real offensive and defensive battle is yet to be fought to work out specific details. Yet we must be consciously aware of the time frame in this regard as we observe developments at home and abroad."

A look at intermediate-term plans of leading city banks, as they applaud themselves for their consolidated group strategy, gives us the feeling that the perceived time frame has already been taken for granted in working out their schedules.

Moreover, the securities houses have thus far insisted persistently that adjustment within the financial industry should go first, before taking any other steps, and that "system reform is not an absolute must." The fact, however, is that they have "already" entered into a

"conditional struggle"—a negotiation that is to be terminated upon fulfillment of certain conditions.

This is revealed in their critical voicing that "the Finance Ministry is adopting a too rough-and-ready method as it did in handling the consumption tax issue."

The SEC Preparing Draft Reports With Haste

In May of last year, the FSRC (its Second Committee) completed an interim report entitled "Concerning the New Financial System." As is widely known, the report cited five formulas under which to carry out reform, and of them, it recommended Plan B (called the subsidiaries-by-different-services formula) and Plan C (called the special-law formula) as options for concentrated studies.

A financial source makes the following remarks in this connection: "Since then, one year has passed although the Second Committee actually resumed its deliberation in September. However, when observing the debate I do not particularly feel there has been an extensive turnaround in the deliberation. Participation through a subsidiary formula has been roughly agreed on as a concrete guideline, though. I think that the reports by the FSRC and the SEC will naturally be unified into one. The FSRC's First Committee is also discussing the way the regional financial system should be organized, and in its discussion an argument is being made for '*hontai kenei*' [hontai, the main office, additionally handling other than its primary service on its own, not through its subsidiary]. Moreover, as is known, the 'Fukui private plan' has raised a stir at the Second Committee. The two committees do not sit together for joint discussions, and it is too subtle to predict that to what extent these concrete working options will be incorporated in the forthcoming FSRC's report."

The deliberations at the FSRC are still continuing, and we can only guess their details from the contents of subjects discussed.

On the other hand, how is the progress in the SEC? According to its schedule, its report will be completed earlier. The FSRC plans to complete its report after seeing the SEC report.

The Second Working Team of the SEC's Basic Issues Research Committee has already held its last free debate on 18 April, and its drafting members have commenced the preparation of a draft for the interim report. The First Working Team also conducted its last free debate at an 8 May meeting and has begun preparing its draft for the interim report. They both plan to finalize their reports in early June and present them to the Basic Issues Research Committee for deliberation.

Committee Member Tachi's Step-By-Step Participation Theory

The First and Second Working Teams were organized in the SEC's Basic Issues Research Committee in July of last year. After about 11 months of efforts, they are at last going to set out a system reform guideline including the issue of who are to conduct the securities business. Nevertheless, at this stage the interim report is unlikely to set forth "anything beyond" a guideline. Many people hold the following view: "The SEC's central theme of discussions has been the reform of the capital market, and therefore the issue of 'who is to conduct' the securities business has been studied only as one subject serving this purpose. After all, the participation-through-subsidiaries formula appears to have become a consolidated option concerning to whom and in what manner the securities business should be newly entrusted. However, even if the SEC's interim report adopts the opinion that competition should be heightened by increasing the number of participants, to reach this goal the report will simply present a general guideline calling for participation through the subsidiary formula and will probably not go further."

When reviewing past discussions at the SEC, one will particularly notice the "step-by-step formula" (an argument for gradual participation through subsidiaries at meetings of the Second Working Team) called for by SEC member Ryuichiro Tachi. The opinion that "we have no objection to admitting financial institutions' participation through the subsidiary formula" was also expressed at meetings of the First Working Team, which had repeatedly studied a legislative framework and other issues for protecting investors in securitized products. However, no clear progress has yet been made in further discussions.

The "Horiuchi Plan" Raids the Security Industry

Deliberations by the SEC were originally conducted on the basis of an earlier midterm report prepared by its Basic Issues Research Committee under the title, "Concerning the Way the Capital Market Should Respond to Financial Equity Financing."

A Finance Ministry Securities Bureau source says as follows: "Speaking of the SEC, it has a common background with the FSRC, which is characterized by the trends toward financial liberalization and internationalization and also equity financing. However, the SEC is not carrying out the study because the subject is in its field of operations. It is studying the way Japan's capital market should be from the viewpoint of raising the market's efficiency and internationality and also of ensuring its sound and stable development. In this process the study goes into how the securities business should be run."

The Securities Bureau was, in a sense, obliged to take up this issue concerning those in charge of securities at the request of the FSRC. It is said that "the truth must rather be that the SEC did not like the idea of handling the issue itself."

Explaining past SEC discussions, an economist makes the following remarks: "Of course, there has been a lot of criticism against the current system and practices which are restrictive of competition. Participants in the study

include not only representatives of the security industry, but also scholars and delegates from financial circles. They also include those called commentators. At the outset, however, the view of the people representing the security industry was strong as expected. They said that there was no need at all to make a change concerning those in charge of the business because Japan's capital market ranked among the top markets of the world in its scale, and it was already involved in brisk activities. However, another voice has gained force saying that the point at issue is the substance of the market." The voice—raised for a long time—refers to the issue of brokerage commissions and the oligopolistic system. The economist goes on to say: "For example, a view was reportedly expressed in the debate that the 40 percent market share by major houses was still high enough to indicate an oligopolistic feature despite the assertion that major houses' market share was falling. Arguments were made that competition is, after all, necessary in order to change such a system and that efforts should be made to bring about a structural change so that new participants would show up, making competition more fierce and that participants would disgorge profits through mounting competition. Discussions have thus developed along these lines."

On the other hand, (at a 23 January meeting of the FSRC's Second Committee) Mr. Akira Horiuchi, a consultant, made a particularly impressive statement that "vested interests of the [securities] business circles are a secondary question, and the utmost priority should be given to customers' conveniences."

He referred to what have thus far been called the three risks accompanying banking institutions' participation in the securities industry such as (1) the conflicts of interests; (2) causing unstableness to the management of banking institutions; and (3) domination of the industry by banking institutions. Pointing out that these three cited risks were not persuasive enough to justify Japan's "vertically oriented" regulation of the lines of business, he expressed the following view: "When there are sufficient competitive conditions in each line of business, banking institutions should be left free to choose their lines of services, thereby giving full play to the economy of scope. This is the most desirable way from the viewpoint of developing efficiency of financial services and of promoting the conveniences of customers as a consequence."

His remarks seem to have exerted a great influence on the securities industry which had maintained with persistence that "system reform is not an absolute must."

Keeping an Eye on the EC's Reciprocity Clause

In addition to these internal factors, there are also external factors in hastening system reform. Amid progress in financial globalization, it is now impossible for Japan, alone, to maintain its specific form.

As is said, the development of the capital market is unlikely unless we turn "the system into one that is transparent and ensures participation by new people in charge." This is why, among others, the easing of various regulatory measures with regard to the debenture issue market has long been called for. A financial source says: "Financial trade converges at those places where dealings are freer and costs are lower. When we observe developments in Europe and the United States, we will note that the EC is likely to become such a place shortly and that the United States is also working to make financial dealings possible at the same levels as the EC. Japan alone cannot be left behind in view of this situation. This sense of crisis has now been growing with administrative authorities as well."

The realization of the united EC (January 1993) is imminent. The EC has prepared what is called the reciprocity clause. In December of last year, it adopted the second plan among proposed banking instructions. We cannot rule out the possibility of cases in which "banking licenses are revoked" according to circumstances. Trends in the United States also hung heavily on our minds.

Nearing Drastic Reform of the Glass-Steagall Act

Introducing recent reports related to the Glass-Steagall Act, a financial source touches on the interesting latest information. The source says: "There are no particularly noticeable moves in the United States this year. People are busy with an off-year election. In addition, their own financial institutions are now in a shaky situation as seen in the S&L bankruptcy problem, and they are busy handling this difficult domestic problem. That is, at the present stage it is still early to discuss the Glass-Steagall Act. However, when this problem is settled, a move to review the act may start once again beginning next year. Though it has not been confirmed concretely, an article carried in THE WASHINGTON POST early this year said that "the Department of the Treasury is now working on a reform plan." According to the article, the wall between banks and securities firms will be abolished, that is, the Glass-Steagall Act will be repealed. The article also said that all S&L institutions would be changed into commercial banks. A similar step was taken in Japan when *sogo* banks [mutual savings and loan banks] were turned into ordinary banks [equivalent to commercial banks in foreign countries]. The article also said that the department seems to be considering a very drastic reform plan which envisages such steps as the restructuring of the deposit insurance system and opening more banking services by nonbank financial institutions. There is a news report that preliminary arrangements have been completed to this end, and that a basic accord on the plan has been reached among the administrative authorities including the Federal Reserve Board. If this is true, a move to abolish the Glass-Steagall Act will really take concrete shape around next year."

There is another reform plan that attracts our attention. The plan has been put forward by the SIA (Securities

Industry Association). It is noteworthy that a move for mutual participation is seen on the side of the securities industry as well.

In connection with its financial system reform, Japan has many more urgent internal and external tasks to be fulfilled, including full deregulation of interest rates and achievement of the final goal of the BIS [Bank for International Settlements] standards. Japan's administrative authorities will push ahead with their schedules with these circumstances in mind.

The Future of the *Hontai Kenei* Theory

A general guideline calling for participation through a subsidiary formula has been consolidated. However, will the subsidiary formula also be uniformly applied to the trust business and long-term financing businesses such as the bank debenture issue service, in addition to the securities service? Or, will *hontai kenei* be admitted partially?

Moreover, the subsidiary formula may be used for the securities business, but will other areas and issues within the banking industry be handled by main offices through the adoption of the main institutions' mutual participation formula? Furthermore, some people, like a representative of the Industrial Bank of Japan, even argue that all banking businesses "including the securities service" should be handled by main institutions themselves."

At any rate, we see representatives of the securities industry arguing that "reform is not an absolute must," while those of the trust service stressing the "theory of trust as a main line of business," not as a side job. The financial world is unanimous as to the theory of participation into the securities, but each business segment has different opinions and intentions, and these stands are unlikely to be compromised easily. With the FSRC's deliberation still continuing, it is hard at this stage to judge how the results of the study will be put into written form. We might have to toil over the interpretation of each word and phrase in a "highly-stylistic text" to be prepared by scholars.

A regional bank source says that "the current Subsidiary Business Law will be able to provide our banks with legal endorsement for the operation of additional services, and we hope that we will be allowed to offer at least a minimum of service to our customers in required business areas." However, at this stage the forthcoming (FSRC) report might be unable to include any definitive decision in this regard.

A financial source makes the following remarks in this connection: "For example, consideration was given to the specific character of regional banks and small- and medium-sized financial institutions which are structurally weak. Noting the advisability of diversifying service activities to some extent at these main institutions [thus saving them the work of establishing their subsidiaries], the FSRC's First Committee took up this subject as an item for study and has continued deliberations. Should the subsidiary formula be imposed on such banking institutions, they would have to accumulate a large amount of capital at once and this would be a fairly difficult job for them. Some express the hopeful notion of joint financing, but it lacks practicality. This explains why the line favoring the operation of primary and additional services at the main institutions has come up. However, I wonder if this line will be defined in clear terms. For example, I do not know if a clear statement can be made in the report that in areas where they have qualifications, those main institutions shall be authorized to adopt *hontai kenei*."

He mentioned a point that deserves our attention, but I feel it is also a ticklish point.

A Stir Created by the "Fukui Private Plan"

At a session of the FSRC's Second Committee (on 28 February), Mr. Toshihiko Fukui, a member of the committee, caused a great stir when he expounded his views.

In his statement, he touched on a paragraph concerning the specialized financial institution system and the separation of banking and securities services. Now, let us view the gist of his statement.

He said: "Concerning the basic framework for the restructuring of our system, we should fully utilize the formula of new business participation through subsidiaries as stated in an FSRC interim report in May of last year. At the same time, when no problems exist in terms of ensuring the financial system's stability or within a range free from such problems, I think that it will be appropriate to consider a supplementary formula designed to expand the scope of work by main institutions on their own." Continuing his remarks, (1) he touched on the specialized financial institution system and said: "Concerning the questions within the banking industry such as the separation of long- and short-term financing and the separation of the trust service from the banking business, these questions have—this is a matter of comparison—relatively small number of problems from the viewpoint of ensuring deposit safety. Accordingly, it may be said that these questions contain, as a matter of comparison, much room for considering mutual participation among main institutions of different financial services [without resorting to the use of subsidiaries]."

However, concerning the trust business, he says: "Basic principles inherent in the trust business such as separate management of trust accounts as well as dividends by performance results for each fund should be thoroughly observed. A failure to observe them thoroughly may give rise to problems in ensuring deposit safety and in preventing conflicts of interests from occurring. Therefore, when new participation in the trust business is implemented, it is indispensable to thoroughly pursue traditional basic principles inherent in the trust business."

(2) As to the separation of banking and securities businesses, he created a stir by making the following unique

remarks: "Touching on the participation in banking and securities businesses, when we compare the two services we will find the possibility that they may be exposed to the kinds of risks which are different from those in the past. In view of the fundamental need of consideration for the safety of deposits on the part of banks, it seems appropriate to base our study on the concept of mutual participation through a subsidiary formula."

The major point of the Fukui plan is the "interception of risks."

What has thus far been called the subsidiaries-by-different-services option is a formula under which, for example, a main bank in the banking service field—makes a 100 percent investment in a subsidiary and, through the subsidiary, participates in other service fields. Touching on the Fukui plan in this connection, a financial source says: "The plan provides for banks to be able to handle all banking services. Main banking institutions can deal with the trust service and the financial bond issuance business as miscellaneous lines, according to the plan. However, the plan notes that the securities service is different in nature from the banking business, and may possibly involve a high risk, and therefore, it would be better to separate the service from main institutions and conduct it through a subsidiary plan. Concerning the special-law formula, an original plan devised by the Finance Ministry, the plan says that it may be worth studying if an effective method can be found for intercepting risks. I thought that the discussions would move ahead further because of this plan. However, upon later consideration, I feel that this is not necessarily so. The opinion holds that if main banking institutions are authorized to operate several services, the already strong banks will become even more powerful, and this is not appropriate from the point of view of the same-competition-condition principle."

It is quite unlikely that the arguments will be settled in a "clear-cut manner." The financial source might be right when he said that "the arguments have not changed from those of a year ago and, after all, we might hear such names as the trust subsidiary and the securities subsidiary."

Target Year Is 1993

Administrative Vice Minister for Finance Hirasawa, who has led drive for system reform for three years as director of the Banking Bureau and for one year at his present post, will retire. He retires after setting a guideline for the reform. Although his original formula has been superceded, his achievements are great. Director of the Securities Bureau Kadotani will leave his post after serving two terms. However, before then he will receive the SEC's report. Remaining Banking Bureau Director Tsuchida will assume a leading role in making practical arrangements following the FSRC's interim report.

A financial source says: "According to future schedules, interim reports by respective councils will come out in June, and details including what is called the fire wall issue will be studied further under the leadership of the Ministry of Finance, and amendments to relevant laws will be put forward next year at the earliest. After they become laws, government and ministry decrees will come out around the year after next. Then, work will start to formulate practical implementation programs. Considering all this, the year of 1993 is likely to become a target year. Strangely, internal and external conditions favorably point to this year."

When we see new intermediate-term plans of leading city banks which seek to strengthen overall financial services through their group strategy, we will find that they are setting 1993 as a target year. For the financial industry, 1993 may become a "historic year."

* Increased Pressure for Profit

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[Article by Haruo Mizushima]

[Text] At a session for financial consultations between Japan and the United States held on 21 and 22 May at the Finance Ministry, fierce arguments arose between officials of the two sides. The theme was, needless to say, deregulation of Japan's interest rates. At present, the Finance Ministry is studying how to pursue this goal under interest rate deregulation schedules proposed by respective financial services. It continues to maintain its prudent attitude, considering, among others, the impact future deregulation of small-lot deposit interest rates will have on the management of small- and medium- sized financial institutions. Under these circumstances, the United States pressed Japan for full deregulation at an early stage, but it has been decided that full deregulation of time deposit interest rates will be realized after a process of 3 years.

A Finance Ministry source says: "Completing deregulation of deposit interest rates in 1993, 3 years from now, may make us think that the target year is too late, compared with the original schedule. However, in the main I think that things are proceeding in a very satisfactory way."

In October of last year, the deposit limit to large-size time deposits was lowered to Y10 million, and in April of this year the lowest limit to small-lot MMC's was set at Y1 million. In a step toward full deregulation of deposit interest rates, rates on sums below Y10 million will finally be deregulated completely this fall. By setting the target date for full interest rate deregulation—the largest point at issue in interest deregulation—for the fall of 1993, the direction for the coming three years has been set.

By the end of March, the Finance Ministry collected opinions from respective business services on how to conduct full deregulation of time deposits that are less than Y10 million. On the basis of these opinions, the ministry has worked to map out concrete plans. Needless

to say, one of the basic reasons for the preparation of the recent deposit interest rate deregulation schedule was to respond to the foreign criticism that "Japan is the most backward in interest rate deregulation," and the Finance Ministry has continued to work for final adjustment on this issue to prepare for Japan-U.S. structural consultations.

Needless to say, paramount emphasis was also given to this issue at the second Japan-U.S. working-level talks on the financial market in Tokyo on 21 and 22 May.

The talks were attended by the Finance Ministry's Deputy Vice Minister Makoto Utsumi and Banking Bureau Director Masaaki Tsuchida from the Japanese side and by Under Secretary of the Treasury Mulford and others from the U.S. side. The U.S. side pressed for "early full deregulation of interest rates on deposits including fluid deposits." In response, the Japanese side said that "it is hard at this point to show a clear deregulation schedule for fluid deposits," and expressed the desire to achieve deregulation "by 1993 with regard to time deposits." Under these circumstances, the gist of deregulation of interest rates on time deposits below Y10 million is as follows: 1) as a schedule, deregulation of deposit interest rates will be completed by the fall of 1993; 2) as a financial product to help this process, medium-lot MMC's linked to large-size time deposit interest rates will be created and deregulation will be carried out in stages; and 3) the minimum deposit amount for the small-size MMC's will be lowered to Y500,000.

Medium-Size MMC's To Be Created This Fall at the Earliest

Describing the past process leading to these decisions, the "timing of full deregulation for three years later" is considered a deadline set to gain U.S. understanding in view of criticism from the United States and other countries which have been requesting full deregulation within one year.

Concerning the creation of medium-size MMC's, it is an amendment to a phased lowering of the deposit unit for large-size time deposits exceeding Y10 million. It is designed to meet proposals from city banks and regional banks that intermediate financial products which stand between large-size time deposits and small-size MMC's be created. The Y3 million denomination in medium-size MMC's is the result of a strong voice saying that "for depositors, the Y3 million unit represents a handy target." What is called the *maruyu* system was abolished in principle two years ago, but people still strongly believe that the sum of Y3 million is just good as a denomination for deposits by individuals. In fact, a credit balance below Y3 million is on the increase with amounts accounting for 30 percent at city banks, 50 percent each at regional and secondary regional banks, and 60 percent at credit associations.

Among medium-size financial products (medium-size MMC's), which "are designed to produce a soft-landing effect" in the deregulation of interest rates of time deposits below Y10 million, are new free time deposits and new super MMC's which have been recommended in practical proposals from various financial service sectors.

Deregulation of deposit interest rates has been extended toward small-size deposits, and its effects on financial institutions have been brought to the fore as a great issue, particularly to small- and medium-sized institutions. This is quite obvious by the fact that for deposits below Y3 million, an institution which is smaller in size has a higher credit balance ratio. In this context, the Finance Ministry faced a strong opposition from small- and medium-sized financial institutions in working out a concrete plan. A successful implementation of interest rate deregulation for deposits below Y10 million, therefore, hinges on adjustment with small- and medium-sized financial institutions which say that "it is inappropriate to decide the time of completion beforehand" and maintain that "interest deregulation should be implemented steadily, with constant observation of what effect the measure is having."

An Impact on Small- and Medium-Sized Financial Institutions

Now let us take a look at past moves for deregulation of deposit interest rates. A Finance Ministry source says: "Deregulation of interest rates has a broad scope containing such areas as market interest rates, lending interest rates, and securities interest rates. However, if we limit the deregulation category to the area of domestic deposit interest rates, deregulation started with the issuance of CD,s in 1979."

However, in a substantial sense it may well be said that it started with the creation of MMC's in May 1985.

The road for interest rate deregulation in our country was made public in a series of three publications. They are the so-called "A Yen-Dollar Committee Report" and "The Present Status and Prospects" published by the Japanese-U.S. Yen-Dollar Committee in May 1984 and also "A Report on Financial Internationalization" prepared by the Financial System Research Council. These publications are linked to the issuance of MMC's next year.

A leading city bank official recalls that an initial timetable said that "large-size time deposits will be handled two or three years later." According to him, the timetable also noted that after handling them, interest rate deregulation will be shifted to small-size time deposits but that "no specific time was mentioned" in this regard.

The handling of large-size time deposits progressed very smoothly as scheduled; nevertheless, some people now point out that "apart from fluid deposits, time deposit interest rate deregulation is a little slow."

This view reflects the difficulty in deregulating small-lot deposit interest rates. When interest rate deregulation

for very small-lot deposits was discussed at a meeting of the past Research Council on Interest Rate Problems, it is said that "some members expressed the view that deposits, for example, those below Y1 million were linked to deregulated financial products and, therefore, free from wild ups and downs, and as a result, not all members said yes to full deregulation."

It may be said that this was the result of their concern about increases in financial costs which interest rate deregulation for deposits, particularly for small-size deposits, may bring to small- and medium-sized financial institutions. On the other hand, prior to the submission of a report by the Japan-U.S. Yen-Dollar Committee, then Prime Minister Nakasone, with a view to disclosing a schedule for interest rate deregulation, instructed the Finance Ministry to prepare a process control table. However, the following was the basic position of the Finance Ministry then in this regard: "It may be possible to depict prospects, but it is hardly acceptable to specify the time of full deposit interest rate deregulation. Should we do so, people managing small- and medium-sized financial institutions will begin to falter. Watching fully the results of a step taken, we will work to formulate a guiding line for the next step."

However, amid the waves of liberalization, "interest rate deregulation—though it is a stern job—is an unavoidable course" as a leading official of a high-ranking city bank says. A leading official of a high-ranking regional bank says: "We can understand the view of small- and medium-sized financial institutions. However, when we consider consumers and enterprises which are using financial institutions and also the economy of our country as a whole, we will realize that the future deposit interest rate deregulation is the foremost task to be carried out by all means."

The ratios of deregulated interest rate deposits have already been showing a large growth with over 60 percent for city banks, 50 percent for regional banks and secondary regional banks, and 40 percent for credit associations. When we see the status of deposits by individuals at the end of March of this year, we will note that among time deposits, regulated interest rate products and MMC's have been decreasing steadily. Commenting on this phenomenon, a city bank source says that "their decreased portion go to large-size time deposits and small-size MMC's, and regulated interest rate deposits will keep decreasing with no workable means to prevent it."

To be sure, the shift of deposits to high, deregulated interest rate products is linked to increases in financial costs; however, the source says, "if these products do not flow to other banks, we will be able to secure stable funds even if there is some increase in costs." The rise in the ratios of deregulated interest rate deposits will further gain speed in the future.

Pressure on Profits Inevitable under High Interest Rates

Deposit interest rate deregulation, which began with MMC's and then was extended to large-size time deposits, has continued down to the present time with low interest rates through a process of lowering by stages the deposit units of both products.

The increase in costs due to progress in interest rate deregulation and the rise in the ratios of deregulated interest rate deposits has thus far been covered by promotion of efficiency and other managerial efforts.

However, when the interest rate deregulation process shifts to the small-size deposit area with high interest rates, it is said that "it will become impossible to absorb increases in fund procurement costs by the efficiency-promoting efforts alone." Small- and medium-sized enterprises will be driven into a tighter situation under these conditions.

At present, financial institutions, with an eye to strengthening their profit-making ability, believe in a great thesis called "consolidation and expansion of the retail sector" as their managerial strategy, and their competition has assumed an increasingly fierce aspect. It is said that "under these circumstances, small- and medium-sized enterprises too should restructure their foundations, overcoming formidable deposit interest rate deregulation."

On the other hand, there is the postal savings issue which we cannot bypass in the process of deposit interest rate deregulation. With the planned creation of medium-lot MMC's and revision of a rule on changes in super MMC interest rates, there are now many new tasks including a rule requiring postal savings interest rates to follow the private sector's and also the question of whether to retain fixed amount savings.

At any rate, a blueprint for full interest rate deregulation has now been shown, and we can read in it a sense indicative of "deregulation with a soft landing."

Future Interest Rate Deregulation Schedule (Proposal)

		90/fall	91/spring	91/fall	92/fall	93/fall
New Free Time Deposit	Minimu Deposit Amt	Y3-10 million				
	Period	3 months-3 yr				
	Interest Rate	linked to large-size time deposits		full deregulation (differs from large-sized)		
Super Free Time Deposit	Minimum Deposit Amt	Y1-3 million	Y500,000			below Y500,000
	Period	3 months-3 yr				
	Interest Rate	super MMC indexation			full deregulation	
Fluid Deposit						

Past Moves for Domestic Deposit Interest Rate Deregulation

		79/5	84/4	85/3	85/10	86/4	86/9	87/4	87/10	88/4	89/4	89/6	89/10	90/4
CD	Minimum Issue Amt	Y300 million		Y100 million						Y50 million				
	Issue Period	3-6 mo		1-6 mo		1 mo- 1 yr				2 wk-2 yr			1 wk-3 yr	
	Issue Limit (ratio to owned capital)	95%		100%	150%	200%	250%	300%	Abolished for time being					
	Interest Rate	Deregulated												
MMC	Minimum Dep Amt			Y50 million			Y30 million	Y20 million		Y10 million			Natural extinction	
	Period			1-6 mon		1 mo-1 yr		1 mo-2 yr						
	Acpt Limit (ratio to owned capital)			75%	150%	200%	250%	300%	Abolished					
	Interest Upper Limit			CD rate minus 0.75%		CD rate minus 0.75% (within 1 yr), minus 0.5% (over 1 yr)								
Large-Size Time Dep	Minimum Deposit Amt				Y1 billion	Y500 million	Y300 million	Y100 million		Y50 million	Y20 million		Y10 million	
	Period				3-2 yr					1 mo-2 yr				
	Interest Rate				Deregulated									
Small-Size MMC	Minimum Deposit Amt										Y3 million		Y1 million	
	Period										6 mo, 1 yr		3 mo, 2 yr, 3 yr	
	Interest Rate									CD rate minus 1.25% (6 mon), minus 0.75% (1 yr)				

Deposits at 12 City Banks as of Mar 1990

	Large-Size	Compared w/ Prev. Mo.	MMC	Compared w/ Prev. Mo.	Super MMC	Compared w/ previous mo.
Dai-Ichi Kangyo	93,394	-12,294	7,125	-1,039	10,656	110
Sumitomo	96,945	-13,312	7,101	-1,148	10,531	1,240
Fuji	97,810	-8,552	5,562	-1,078	11,963	684
Mitsubishi	96,352	-6,178	6,547	-878	8,829	751
Sanwa	83,846	-6,944	5,710	-1,118	13,234	1,162
Tokai	74,737	-1,100	1,653	-474	5,522	122
Mitsui	74,928	1,726	1,672	-522	4,972	245
Taiyo Kobe	62,935	-4,696	2,077	-2,834	8,564	702
Daiwa	43,714	835	1,182	-316	3,350	79
Kyowa	41,085	2,150	2,454	-337	4,212	115
Saitama	27,357	-343	1,568	-415	6,079	161
Hokkaido Takushoku	24,466	849	759	-248	2,864	85
Total	817,569	-47,859	43,410	-10,407	90,776	5,456

(Bank of Tokyo Excluded); Unit: Y100 million

* Accelerating Savings Interest Liberalization

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[Article by Fuji Bank president, Taizo Hashida]

[Text] Recently the Ministry of Finance indicated a liberalization schedule that will attempt to completely liberalize fixed-term savings interest within the next three years, as well as improve the marketability of small money-market certificates (MMC's) this fall and lower the minimum deposit for new small MMC's starting next spring. Our country's savings interest liberalization, which began with the establishment of transferable savings in 1979, is reaching its last stage with regard to fixed-term savings.

Our country's savings interest liberalization hit its stride with the establishment of MMC's in 1985 and the liberalization of interest on fixed-term deposits of more than 1 billion yen. Since then it has steadily progressed with a series of drops in the minimum amount of deposit and greater flexibility in deposit terms.

Currently, the minimum deposit for a large fixed-term savings account is being lowered to 10 million yen; in addition, small MMC's, introduced last year, can be made with 1 millon yen or more. The liberalization of savings interest is already reaching the small account sector.

As for city banks, free interest savings now exceed 70 percent of total savings. This is the same level as the U.S. Money Center Bank, [as published] which finished liberalizing savings interest four years ago. (In the U.S., savings interest is regulated and it is prohibited to add interest to current deposits. [as published])

Considering that the percentage five years ago in March 1986, was only 12 percent, it can be seen how fast liberalization has occurred in the meantime for city banks and how big its influence has been. Current percentages of free interest savings, such as 50 percent for regional banks and 30 percent for credit unions, etc., may accordingly rise rapidly as small fixed-term savings interest is liberalized.

It goes without saying that savings interest should be liberalized as soon as possible in order to enable depositors to broadly and fairly enjoy its benefits.

Also, when we compare our situation with that of various foreign countries, we cannot escape the fact that we lag behind them in liberalizing our country's savings interest. West Germany in 1967, the United Kingdom in 1971, and then, tagging behind, the United States in 1986 completed the liberalization of savings interest.

It is also a reality, however, that for financial institutions, liberalization, with its increased procurement costs and interest risks,is a major area where management must make decisions.

The recent favoritism clearly shown by banks to the retail field is the result of responding to this increased procurement cost. The effort to strengthen noninterest revenues like international services, bond-funding services, and merger and acquisition business, etc., is also evident. Of course, squeezing expenses by streamlining clerical work is part of this trend.

Each bank has wrestled with building an ALM (assets and liabilities management) system, as a top priority for

responding to the interest risk. The financial environment after liberalization is an unknown world for us. What is definite is that it will be an era when the propriety of each financial institutions' management strategies and the quality of its response will reflect directly on its achievements. Even so, a customer-oriented attitude will no doubt continue to be the most important guide for management.

As more financial assets are accumulated, customers have more diverse and developed needs for high quality financial products and services.

Each financial institution is called upon to accurately meet these expectations of customers through the use of its business innovations which allow it to compete actively and reasonably.